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SUBJECT: Laos: Update on Official Involvement in the Drug  
Trade [REDACTED]

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OGI/SND/E/[REDACTED] (11 July 1986)

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[redacted]  
Central Intelligence Agency

Washington, D. C. 20505

## DIRECTORATE OF INTELLIGENCE

9 July 1986

Laos: Update on Official Involvement in the Drug TradeSummary

Laotian provincial governments are heavily involved in the export of illicit drug crops to Thailand. The state trading company is encouraging marijuana cultivation and has made several multi-ton sales to Thai brokers. Connections to Thai opium brokers have also solidified, allowing the provincial trade offices to export shipments of unprecedented size. Evidence strongly suggests that the central government is not only aware of and benefiting indirectly from provincial government trading of opium and marijuana but has sanctioned the activity. Although local and provincial Laotian officials are becoming more involved in the heroin trade, they are probably acting on their own. [redacted]

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This memorandum was prepared by [redacted] Strategic Narcotics/Eurasia-Africa Branch, Office of Global Issues. This analysis is based on information available as of 9 July 1986. Comments and queries are welcome and may be addressed to the Chief, Strategic Narcotics Division, [redacted]

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## Introduction

Official involvement in the drug trade in Laos has increased over the last several months, but the nature of that involvement has not changed (see Appendix). Provincial governments continue to be major players in marijuana and opium, two traditional crops. Participation in the heroin trade, where international exposure could bring more severe political costs, appears to be limited to individual officials acting on their own. In our view, the activity in all three drug markets in Laos is likely to increase, and we expect Laotian officials to be important to that growth. [REDACTED]

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## Marijuana

The marijuana trade in Laos is expanding rapidly, largely through the efforts of the Mountainous Area Development Company (MADC), which is responsible for promoting cultivation, serving as the principal buying agent for the provinces, and coordinating sales to Thai buyers. [REDACTED] the Laotian Government through MADC is encouraging the provinces to push farmers to increase marijuana plantings, [REDACTED] experienced Thai growers have been imported to improve cultivation techniques. [REDACTED] Laotian Army units are gathering and transporting marijuana to storage centers. [REDACTED]

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Laos' expanding marijuana cultivation has been helped by the explosive growth of the marijuana market in Thailand, where a new generation of Thai traffickers is transforming a small, cottage trade into a modern, export-oriented industry. Although Thai cultivation is also rising, marketing Laotian marijuana offers advantages to these traffickers. Supplies are more secure since there is no threat of eradication in Laos. Thai brokers dealing through MADC save time and money because they do not have to buy from large numbers of individual growers. Steadily growing Laotian supplies, gathered and stored under MADC control, also allow Thai buyers to concentrate their efforts on moving shipments to the international market. [REDACTED]

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<sup>1</sup> MADC is a government trading company established to purchase and export primary commodities to generate foreign exchange. [REDACTED] military leaders initiated the creation of MADC as a source of additional income for themselves.

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[redacted]

In our view, MADC is likely to secure a near monopoly of Laos' expanding marijuana trade and become a major regional supplier. Our analysis [redacted] indicates marijuana only recently became an important cash crop, and the government entered the trade before a large private trade had a chance to develop. MADC works closely with local military units and appears to be in firm control of eastern Laos where the bulk of marijuana is grown, hindering formation of new private trade networks. MADC also pays its marijuana growers the going rate of about eight dollars per kilogram, enough to prevent private traders from outbidding it. MADC is probably willing to pay the market price because the return it receives for merchandizing bulk loads to the Thais makes up for the higher purchase price.

[redacted]

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### Opium and Heroin

Provincial trade officials working through MADC continue to develop their network of customers in the opium trade and are selling larger shipments to Thai brokers. [redacted] high level officials in Vientiane are aware of this activity and have sanctioned it to allow the provinces to be more self sufficient economically. MADC is using private Laotian intermediaries to make deals with Thai wholesalers and is probably capable of moving several tons of raw opium in a single shipment.

[redacted]

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Involvement by Laotian government officials in the heroin trade is becoming more widespread. Evidence indicates local and provincial officials remain on the periphery--providing protection, logistical support, and transport to independent traffickers.

[redacted]

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Evidence that heroin activity is sanctioned and controlled by officials at the highest levels of the central government remains fragmented and unconfirmed:

[redacted]

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#### Our View on Vientiane Complicity

Evidence strongly suggests that the central government is not only aware of and benefiting indirectly from provincial government trading of opium and marijuana but has sanctioned the activity. As the distribution center for raw narcotics, MADC is a highly visible organization that acts on behalf of the Laotian Government and represents it in the international commodity market. MADC was created by the central government, its activities are known to officials in Vientiane, and those officials have the power to stop MADC's drug sales. Since Vientiane has made no move to stop MADC, we judge the trading company is operating with the central government's blessing. As yet, there is no direct money trail back to Vientiane, but we suspect a share of the MADC take goes to the national treasury.

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[redacted]

In our view, the heroin activity conducted by local and provincial officials is to line their own pockets. There is little Vientiane could do to stop private heroin dealing by these officials. As in pre-1975 Laos, many military and government officials operate outside of Vientiane's control and are answerable only to local superiors.

[redacted]

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### Outlook

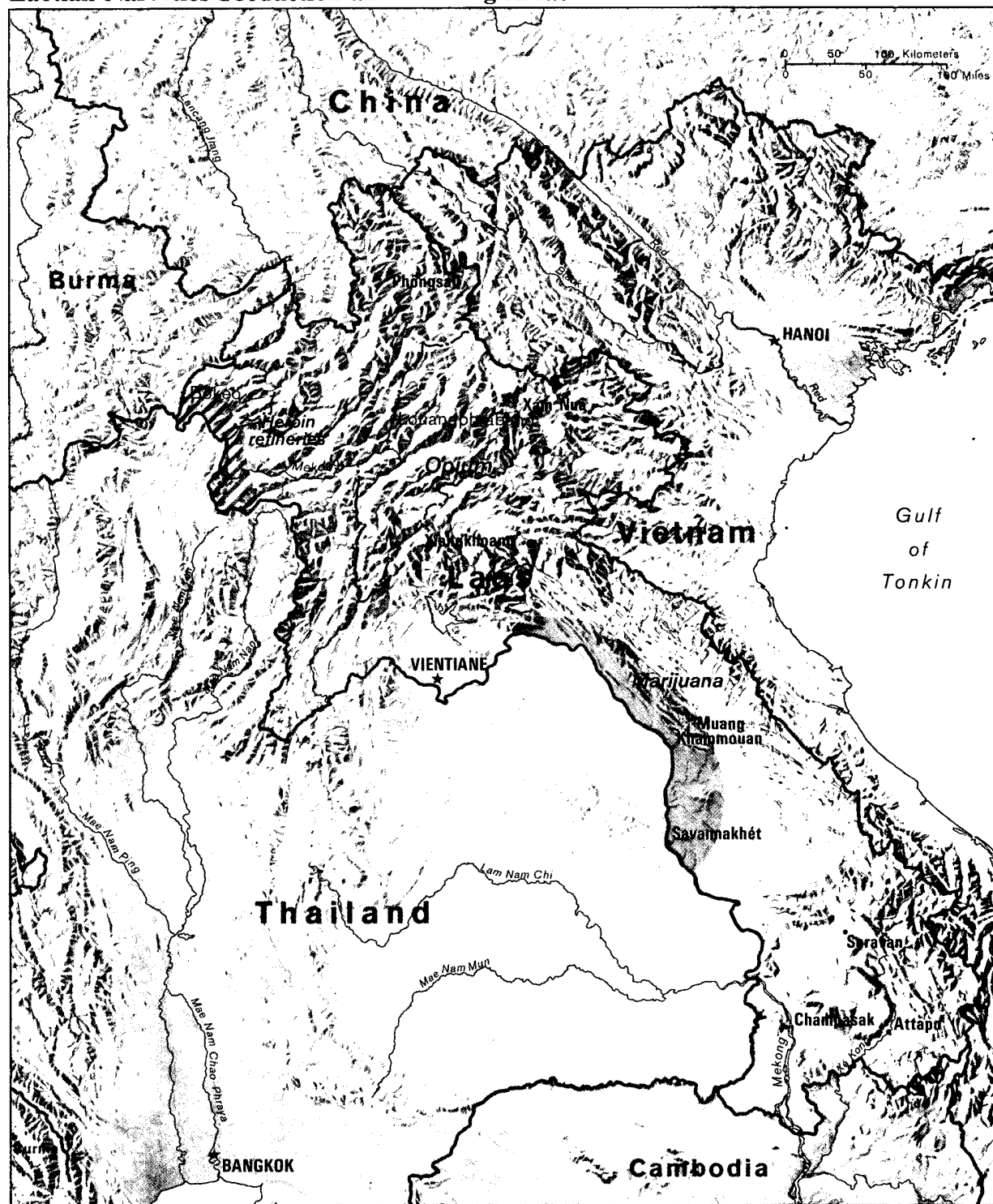
Over the short term, we expect to see a boom in the government-sponsored marijuana trade. The crop is profitable for farmers, and the government has the marketing connections to sell all that it can buy. The growing links between major Thai brokers and MADC indicate that a significant share of future marijuana exports from Thailand to the United States and other consumer countries is likely to be Laotian grown. The expected bumper opium crop in the Golden Triangle this year will likely depress opium prices and possibly push the provincial governments into the more profitable heroin trade. We doubt the provinces would enter heroin refining directly, but mounting economic pressures will make it easier for independent traffickers to buy official protection and lead more local and provincial officials to offer their services to those traffickers. Political risks make it unlikely that officials in the central government will become involved in heroin trafficking. In our view, a more likely--and potentially more serious--development is that a "rogue" provincial official acting on his own could establish a private narcotics empire. With opium supplies plentiful, a Laotian narcotics warlord could not only coordinate the production and distribution of several tons of heroin annually but would be immune to international pressure.

[redacted]

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## APPENDIX

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**Laos: Official Involvement in  
Narcotics Trafficking** [ ]

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The involvement of Laotian Government officials in the opium trade predates the present Communist regime. Following its takeover in 1975, the Pathet Lao leadership considered banning opium, but instead decided to permit continued cultivation, mainly to mollify its former enemy, the Hmong, for whom opium was a cash crop. All opium was to be sold to the state; those caught selling to private traders were to be arrested and their opium confiscated. The government sold the opium to the Soviet Bloc—primarily the Soviet Union, Vietnam, and Bulgaria—for licit processing, [ ]. To accumulate a large stockpile of opium, the government encouraged farmers to plant poppy. [ ]

With the state holding a monopoly and private trade in opium illegal, it opened the door for corrupt officials to use their positions to participate in the opium trade. Opium trafficking presented an opportunity for low-paid government officials to supplement their incomes. Officials who had access to opium supplies could easily divert it to the illicit market. Using their government status, officials could arrange transport of opium to traffickers at the Thai border. Both military and civilian officials have been implicated in diverting opium to the illicit market. Laotian military officers often used patrols to protect opium shipments to the border. [ ]

[ ] the late 1970s, civilian officials not only sold opium to border traffickers but also engineered schemes to ship opium to Hong Kong on Lao Air Line flights and, in one case, to have opium air dropped in Hong Kong waters and retrieved by waiting trawlers. [ ]

**Current Involvement of Laotian Officials**

We judge that the extent of official involvement is increasing mainly in response to increased demands for Laotian opium on the illegal market and a changing situation along the Thai-Burmese border. A drought in Burma and western Thailand has driven up opium prices in the Golden Triangle and sent traffickers to Laos, normally a secondary supplier.

Some traffickers also see Laos as a sanctuary for refining operations away from the disruptions on the Thai-Burmese border caused by hostilities between the major trafficking groups and sweeps by the Thai Army. We expect these new refineries to seek local sources of opium. [ ]

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[ ] today the participation by officials in the opium trade occurs more frequently, and the amounts of opium are much larger than was the case in the late 1970s and early 1980s. [ ]

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[ ] Numerous Thai import-export companies buy opium [ ] and resell it to independent traffickers. Military patrols often move large amounts of opium from stockpiles to the border. [ ]

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**Laotian Officials and the Heroin Trade**

An important change from earlier years is growing official participation in the heroin trade. The Pathet Lao cracked down on the heroin trade after the war, but heroin processing and trafficking continued on a small scale. Some government officials aided the trade by turning a blind eye to traffickers processing heroin in the western provinces and using military units to escort caravans moving refined narcotics to the Thai border. Small and mobile, these refineries processed heroin sporadically and needed only intermittent involvement by Laotian officials. Small-scale backroom processing centers in Vientiane that served the local heroin market also operated with the protection of bribed officials. [ ]

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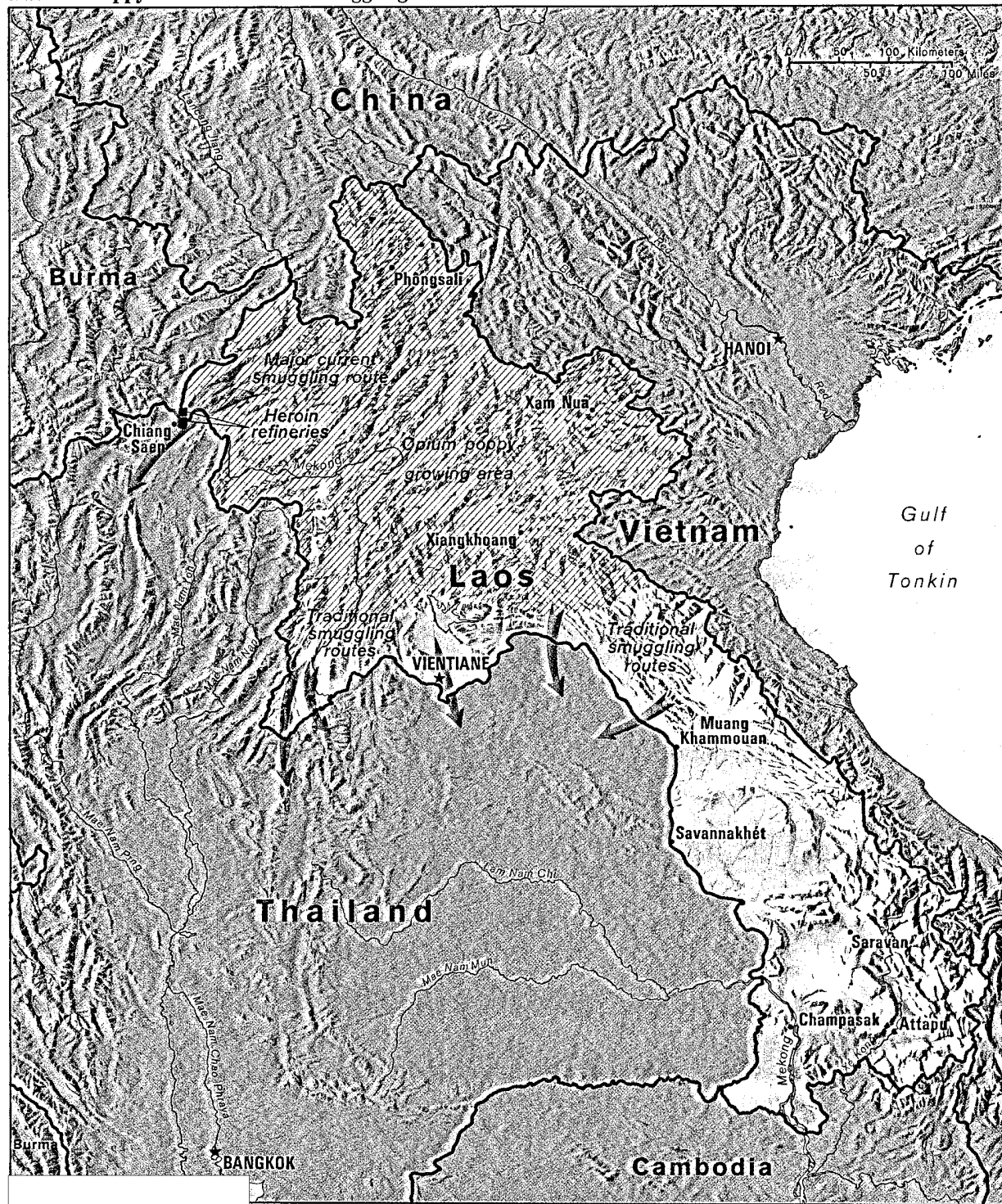
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# Laotian Poppy Cultivation and Smuggling Routes



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At least one major heroin trafficking ring operated out of Vientiane as recently as 1980 with the connivance of a senior official, according to [redacted] press reporting. Heroin No. 3 reportedly was produced in a brewery managed by a heroin chemist who had had ties to major Laotian traffickers in the 1960s. The scheme required the complicity of the head of the foreign trade department of the Ministry of Industry and Trade, which was the source of the opium. A press report claims the Ministry also issued the refiner a permit to import acetic anhydride, a chemical necessary for heroin production. [redacted]

merchants, thus shielding itself from direct contact with traffickers. Laotian merchants, using legitimate businesses as fronts, purchased opium from the Ministry of Industry and Trade; took it out of storage either in Vientiane or one of the provincial storehouses; and moved it to a smuggling point along the Mekong River. [redacted]

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[redacted] some Laotian officials have moved from facilitating the heroin trade to direct participation:

- Corrupt Laotian military officers have established a heroin refinery in western Laos, opposite Chiang Saen, Thailand, [redacted]

Evidence strongly suggests the Laotian Government continues to turn periodically to the illicit opium trade as a source of revenue. The government is actively encouraging farmers to grow opium and, in some provinces, providing opium poppyseeds and hand tools. [redacted]

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#### Direct State Involvement

In addition to involvement by officials for personal gain, there is strong evidence of state involvement in opium sales dating back to 1976. Faced with rising foreign exchange needs, the new government evidently regards opium diverted to the illicit market as a source of hard currency or as barter for needed consumer goods. [redacted]

[redacted] the government began selling opium from its stockpiles through middlemen to Thai opium

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There is ample room for expanded involvement in heroin processing and trafficking by individual officials. Any of a number of provincial or military officials could become a big player in the heroin market, assuming he were able to assemble a processing team and find a Thai broker to sell his final product. Given the autonomy with which most Laotian officials exercise power and the pervasive acceptance of income-supplementing activity, an official could probably produce a large amount of heroin before drawing negative attention from Vientiane. [ ]

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We judge that several factors will weigh against large-scale government participation in the heroin trade. The potential embarrassment and subsequent political damage from exposure for trafficking in a universally condemned narcotic would be severe. To process heroin, the government would need to set up a laboratory, provide chemicals, and hire an experienced chemist. The government would have to build a covert distribution network to move heroin out of the country. It would be difficult for the Laotian Government to sell more than small amounts of heroin through middlemen to Thai merchants without the source quickly becoming known. [ ]

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#### **Outlook**

During the last 10 years, Laos has been rebuilding as a source of opium. At the same time, involvement by officials has evolved from occasional opium smuggling to participation in heroin production and trafficking. We expect that the trend toward more direct involvement by officials will continue and that higher level officials will be implicated. With opium prices rising and supplies from the northern provinces plentiful, officials with access to large stockpiles are likely to want a greater share of the lucrative smuggling profits. Well-established networks linking Laotian sources to border traffickers make it easy for officials to profit from the opium trade. In our judgment, the same factors will probably cause provincial governments to look at the opium trade as a way to overcome budget problems. [ ]

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